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SUPPLEMENT

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25X1X Legal Tender in Nationalist-held Manchuria

1. The New Nationalist Northeast Currency, or "NEC" and the Manchukuo "yuan" or "yen" currency in all denominations are legal tender in Nationalist-held Manchuria. The NEC is backed by the Central Bank of China and the Manchukuo currency is exchangeable for it at the rate of 1:1 in Nationalist-controlled areas. Since August 1946 when all former Soviet Russian Occupation Northeast Yen Currency was ordered to be turned in to banks and to be exchanged at a rate of 2 Soviet yen to 1 NEC, Soviet yen are no longer legal tender. 25X1X  
However, in most areas, Soviet Occupation Currency of 5-yen and 10-yen denominations are still being used and considered valid on a 1:1 basis in common market transactions.) Presumably the Soviet 25X1X Occupation yen are the same as the Soviet Red Army dollar notes referred to in previous reports. Previous reports indicated that the redemption did not apply to Soviet Occupation currency of 5-yen and 10-yen denominations.)

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2. The Chinese Communist "Tungpei" currency and that issued by provincial banks are not legal tender in Nationalist areas of Manchuria, and there is a heavy fine and/or jail sentence given for any use of such currency in common business. There is quite a bit of this type currency in the possession of various merchants in Changchun and in other Nationalist areas, but because of penalties imposed, very little of it is circulated.

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25X1X Legal Tender in Communist-held Manchuria

3. The Communist "Tungpei" Bank of China notes in all denominations, notes of the various provincial banks and Manchukuo yen or yuan notes are all legal tender in Communist-held territory in Manchuria. In addition, Soviet Occupation currency notes are widely used in Communist areas although not definitely stated as legal currency. A previously reported

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the only currency accepted as legal tender is the Communist "tungpei". the 100-yen notes of the Manchukuo currency were withdrawn about 5 August 1946, while a Lungching source states that after 1 September 1946 Manchukuo notes were withdrawn. As for Soviet Occupation currency notes, an analysis of the more reliable reports indicates that the Communists did call in many of these notes in exchange for their own notes but that Soviet Occupation currency notes are still circulating in some Communist areas. Most sources agree that the Communist "tungpei" notes, Manchukuo notes and Soviet Occupation currency notes are in circulation.)

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At Hsiunguehch'eng (122-08,40-10) and other towns between Antung and the Soviet-controlled Kwantung peninsula, only the Manchukuo yen is now being used because the inhabitants refuse to accept Chinese Communist or Soviet notes. Note: Source of paragraphs 1 and 3 believes this very probable because of the Nationalist advance toward this area, as whenever the Nationalists threaten a region the Communist "tungpei" currency is quite generally refused and thus the Manchukuo yen serves as a safe interim currency.)

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5. In the Soviet-controlled Kwantung peninsula, including Dairen, the Soviet Occupation currency is official legal tender, although particularly in Dairen city and in the Manchurian border towns, Communist "tungpei" and Manchukuo yen currency are used so commonly in trade that in words of the source, "There really seemed to be three legal currencies." Source stated that occasionally Soviet soldiers will use Russian rubles in buying items, although use of them is forbidden by Soviet occupation authorities. On one occasion source also saw a Soviet soldier use U.S. dollars to buy some food from a Japanese. She believed he used \$5 and \$1 bills. Note: Previously reported sources indicate that the Bank of Korea notes are also in circulation. Other sources do not indicate that Communist "tungpei" currency is circulating. A previously reported source states that the Soviets have forbidden the circulation of the Communist paper money.)

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#### Exchange Rates in Nationalist-held Manchuria

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6. Exchange rates of 1:1 between legal tender and currency notes in common use in Nationalist territories has been covered in paragraph 1. The exchange rate between NEC and U.S. dollars in Changchun was as follows:

Date	NEC	US\$
22 October 1946	450	1
27 October 1946	430	1
12 November 1946	365	1

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Whether above rates refer to buying or selling is not stated.) Although these rates refer to currency exchanges made by banks and were obtained from a bank source, it is not known whether or not they are official government exchange rates. While it has been verified that the foregoing rates are the commonly accepted ones in Changchun, the amount of exchange speculation and the scarcity of official exchange for converting this regional currency into U.S. dollars makes for a very fluctuating rate. In Changchun sold U.S.\$30. for 13,500 NEC on 29 October and on 31 October sold U.S.\$20. for 8,400 NEC.)

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7. The NEC exchanges officially with CNC at the rate of 1 NEC to 13 CNC. However, blackmarket prices put the NEC at the ratio of 1:10 or 1:12 with CNC.

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Exchange Rates in Communist-held Manchuria

8. Exchange rates between Nationalist NEC and Communist "tungpei" are very difficult to determine because of the fact that neither side officially recognizes the other's currency. Nevertheless, exchange transactions, buying and selling, etc., are carried on all the time, particularly in border areas. In these transactions, the rate constantly fluctuates from time to time and place to place and often depends on the circumstances of local supply and demand, i.e., whether they are trying to buy up sizeable amounts clandestinely. For example, during October when the withdrawal of Communist troops from Harbin to the area around Chiamussu took place, first the prices of commodities bought in Harbin by the people there using Communist "tungpei" were affected, and then the Communist currency gradually depreciated to a considerable extent. Every time more Communist troops withdraw northward from Harbin, the people lose faith in the Communist currency. As of 30 October, even Communist officials were buying Manchukuo yen at a rate of 5 yen to 1 Communist "tungpei," although the Harbin official rate was set at 2 yen to 1 Communist "tungpei." The purchasing power of the Communist currency by comparison was even lower than this exchange rate would indicate. The exchange rate between Communist "tungpei" and Soviet Occupation currency is 1:1. [REDACTED] Note: Source of paragraph 4 and 5 reports that at Wafangtien (122-02,39-34) 100 Soviet Occupation yen is worth only 50 Communist "tungpei" and that the Manchukuo yen exchanges with Communist "tungpei" at the rate of 1:1.)

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9. Source reported having had to pay slightly over 150 Soviet Occupation yen for every yen of Manchukuo currency. (Note: This statement is probably true, as a previously reported source stated on 23 August that the rate was Soviet Occupation 1.5 to 1 Manchukuo yen, and a source with information as of 20 September stated that 100 Manchurian yuan were worth 150 dollars in Soviet Army Notes. Another source stated that the rate was 17 Soviet Army Notes to 10 Manchurian yuan.)

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Counterfeiting

10. The Communists are making counterfeit NEC in Harbin and Chiamussu and sending it down through the underground into Nationalist-liberated areas to flood the market and depreciate the money market there.

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